

**Pine River Township**  
(*Caratiot*)  
**Financial Statements**

**March 31, 2004**



# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|   |                                |  |                          |
|---|--------------------------------|--|--------------------------|
| Local Government Type<br><input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |                                | Local Government Name<br><b>Pine River Township</b>          | County<br><b>Gratiot</b> |
| Audit Date<br><b>3/31/04</b>  | Opinion Date<br><b>8/24/04</b> | Date Accountant Report Submitted to State:<br><b>9/30/04</b> |                          |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

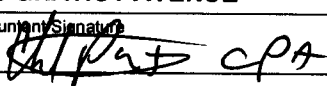
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

|   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGR).   |          |                 | ✓            |

|   |  |                     |                        |
|---|--|---------------------|------------------------|
| Certified Public Accountant (Firm Name)<br><b>ROSLUND, PRESTAGE &amp; CO., PC, CPA'S</b>                    |  |                     |                        |
| Street Address<br><b>308 GRATIOT AVENUE</b>   |  | City<br><b>ALMA</b> | State<br><b>MI</b>     |
| Accountant Signature<br> |  | ZIP<br><b>48801</b> | Date<br><b>9/30/04</b> |

Pine River Township  
Financial Statements  
March 31, 2004

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Pine River Township Board  
March 31, 2004

Kevin Beeson

Supervisor

Gary Lofgren

Clerk

Elnora VanderVeen

Treasurer

Dave Best

Trustee

Jeff Baker

Trustee



## **Independent Auditor's Report**

Pine River Township Board  
Pine River Township, Michigan

We have audited the accompanying general-purpose financial statements of Pine River Township as of and for the year ended March 31, 2004, as listed in the table of contents. These general-purpose financial statements are the responsibility of Pine River Township's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Pine River Township, as of March 31, 2004, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of Pine River Township. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 24, 2004 on our consideration of Pine River Township's internal control structure over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Roslund, Prestage & Co, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 24, 2004

Pine River Township  
Combined Balance Sheet - All Fund Types And Account Groups  
March 31, 2004

|  | Governmental<br>Fund Types |                    | Proprietary<br>Fund Types | Fiduciary<br>Fund Type | Account<br>Groups          |                                |
|--|----------------------------|--------------------|---------------------------|------------------------|----------------------------|--------------------------------|
|  | General                    | Special<br>Revenue | Enterprise                | Agency                 | General<br>Fixed<br>Assets | Totals<br>(Memorandum<br>Only) |
| <u>Assets</u>  |                            |                    |                           |                        |                            |                                |
| Cash and cash equivalents  | \$707,694                  | \$122,606          | \$1,075,707               | \$263,110              | -                          | \$2,169,117                    |
| Accounts receivable  | -                          | -                  | 26,368                    | -                      | -                          | 26,368                         |
| Taxes receivable   | 12,962                     | 11,823             | -                         | -                      | -                          | 24,785                         |
| Special assessments receivable                                     | 15,415                     | -                  | 20,859                    | -                      | -                          | 36,274                         |
| Prepaid expenses   | -                          | 9,925              | -                         | -                      | -                          | 9,925                          |
| Due from other funds   | 1,776                      | -                  | -                         | -                      | -                          | 1,776                          |
| Due from other governmental units                                  | 53,963                     | -                  | -                         | 13,631                 | -                          | 67,594                         |
| Fixed assets (net where applicable<br>of accumulated depreciation) | -                          | -                  | 612,924                   | -                      | \$330,143                  | 943,067                        |
| Total assets   | <u>\$791,810</u>           | <u>\$144,354</u>   | <u>\$1,735,858</u>        | <u>\$276,741</u>       | <u>\$330,143</u>           | <u>\$3,278,906</u>             |
| <u>Liabilities and Fund Equity</u>                                 |                            |                    |                           |                        |                            |                                |
| <u>Liabilities</u>   |                            |                    |                           |                        |                            |                                |
| Accounts payable   | \$8,703                    | -                  | \$17,216                  | -                      | -                          | \$25,919                       |
| Accrued liabilities  | 3,079                      | -                  | -                         | -                      | -                          | 3,079                          |
| Due to other funds   | -                          | -                  | 1,776                     | -                      | -                          | 1,776                          |
| Due to other governmental units                                    | -                          | -                  | -                         | \$276,741              | -                          | 276,741                        |
| Deferred revenues  | 12,611                     | -                  | -                         | -                      | -                          | 12,611                         |
| Total liabilities  | <u>24,393</u>              | <u>-</u>           | <u>18,992</u>             | <u>276,741</u>         | <u>-</u>                   | <u>320,126</u>                 |
| <u>Fund equity</u>   |                            |                    |                           |                        |                            |                                |
| Contributed capital  | -                          | -                  | 833,748                   | -                      | -                          | 833,748                        |
| Investment in fixed assets   | -                          | -                  | -                         | -                      | \$330,143                  | 330,143                        |
| Retained earnings  | -                          | -                  | -                         | -                      | -                          | -                              |
| Unreserved   | -                          | -                  | 883,118                   | -                      | -                          | 883,118                        |
| Fund Balance   | -                          | -                  | -                         | -                      | -                          | -                              |
| Restricted for capital purchases                                   | -                          | \$75,000           | -                         | -                      | -                          | 75,000                         |
| Unreserved   | 767,417                    | 69,354             | -                         | -                      | -                          | 836,771                        |
| Total fund equity  | <u>767,417</u>             | <u>144,354</u>     | <u>1,716,866</u>          | <u>-</u>               | <u>330,143</u>             | <u>2,958,780</u>               |
| Total liabilities<br>and fund equity                               | <u>\$791,810</u>           | <u>\$144,354</u>   | <u>\$1,735,858</u>        | <u>\$276,741</u>       | <u>\$330,143</u>           | <u>\$3,278,906</u>             |

See Accompanying Notes to Financial Statements.

Pine River Township  
Combined Statement Of Revenues, Expenditures  
And Changes In Fund Balance  
All Governmental Fund Types  
Year Ended March 31, 2004

|   | Governmental<br>Fund Types |                                 | Total<br>(Memorandum<br>Only) |
|---|----------------------------|---------------------------------|-------------------------------|
|   | General<br>Fund            | Special<br>Revenue<br>Fire Fund |                               |
| Revenues  |                            |                                 |                               |
| Taxes and penalties                             | \$82,975                   | \$105,061                       | \$188,036                     |
| Licenses and permits                            | 11,521                     | -                               | 11,521                        |
| State grants                                    | 177,966                    | -                               | 177,966                       |
| Interest and rentals                            | 10,814                     | 178                             | 10,992                        |
| Other revenues                                  | 22,123                     | -                               | 22,123                        |
| Total revenues                                  | <u>305,399</u>             | <u>105,239</u>                  | <u>410,638</u>                |
| Expenditures                                    |                            |                                 |                               |
| Legislative                                     | 35,383                     | -                               | 35,383                        |
| General government                              | 96,189                     | -                               | 96,189                        |
| Public safety                                   | -                          | 93,108                          | 93,108                        |
| Public works                                    | 103,115                    | -                               | 103,115                       |
| Other expenditures                              | 7,638                      | -                               | 7,638                         |
| Capital outlay                                  | 1,396                      | -                               | 1,396                         |
| Total expenditures                              | <u>243,721</u>             | <u>93,108</u>                   | <u>336,829</u>                |
| Excess of revenues over<br>(under) expenditures | 61,678                     | 12,131                          | 73,809                        |
| Fund balance - April 1, 2003                    | <u>705,739</u>             | <u>132,223</u>                  | <u>837,962</u>                |
| Fund balance - March 31, 2004                   | <u><u>\$767,417</u></u>    | <u><u>\$144,354</u></u>         | <u><u>\$911,771</u></u>       |

See Accompanying Notes to Financial Statements.



Pine River Township  
Combined Statement Of Revenues, Expenditures  
And Changes In Fund Balance - Budget And Actual  
General Fund and Special Revenue Fund  
Year Ended March 31, 2004

|   | General Fund     |                  |                  | Special Revenue Fire Fund |                  |                |
|---|------------------|------------------|------------------|---------------------------|------------------|----------------|
|   | Budget           | Actual           | Variance         | Budget                    | Actual           | Variance       |
| Revenues  |                  |                  |                  |                           |                  |                |
| Taxes and penalties                             | \$72,500         | \$82,975         | \$10,475         | \$100,850                 | \$105,061        | \$4,211        |
| Licenses and permits                            | 7,500            | 11,521           | 4,021            | -                         | -                | -              |
| State grants                                    | 170,000          | 177,966          | 7,966            | -                         | -                | -              |
| Interest and rentals                            | 16,000           | 10,814           | (5,186)          | -                         | 178              | 178            |
| Other revenues                                  | 2,850            | 22,123           | 19,273           | -                         | -                | -              |
| Total revenues                                  | <u>268,850</u>   | <u>305,399</u>   | <u>36,549</u>    | <u>100,850</u>            | <u>105,239</u>   | <u>4,389</u>   |
| Expenditures                                    |                  |                  |                  |                           |                  |                |
| Legislative                                     | 46,780           | 35,383           | 11,397           | -                         | -                | -              |
| General government                              | 141,842          | 96,189           | 45,653           | -                         | -                | -              |
| Public safety                                   | -                | -                | -                | 92,766                    | 93,108           | (342)          |
| Public works                                    | 109,100          | 103,115          | 5,985            | -                         | -                | -              |
| Other expenditures                              | 14,750           | 7,638            | 7,112            | -                         | -                | -              |
| Capital outlay                                  | -                | 1,396            | (1,396)          | -                         | -                | -              |
| Total expenditures                              | <u>312,472</u>   | <u>243,721</u>   | <u>68,751</u>    | <u>92,766</u>             | <u>93,108</u>    | <u>(342)</u>   |
| Excess of revenues over<br>(under) expenditures | (43,622)         | 61,678           | 105,300          | 8,084                     | 12,131           | 4,047          |
| Fund balance - April 1, 2003                    | <u>705,739</u>   | <u>705,739</u>   | <u>-</u>         | <u>132,223</u>            | <u>132,223</u>   | <u>-</u>       |
| Fund balance - March 31, 2004                   | <u>\$662,117</u> | <u>\$767,417</u> | <u>\$105,300</u> | <u>\$140,307</u>          | <u>\$144,354</u> | <u>\$4,047</u> |

See Accompanying Notes to Financial Statements.

Pine River Township  
Combined Statement of Revenues, Expenses And  
Changes In Retained Earnings - All Proprietary Funds  
For the Year Ended March 31, 2004

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|                                   |                         |
|-----------------------------------|-------------------------|
| Operating revenues                |                         |
| Charges for services              | \$133,091               |
| Other operating revenues          | <u>10,597</u>           |
| Total operating revenue           | <u>143,688</u>          |
| Operating expenses                |                         |
| Salaries                          | 13,322                  |
| Supplies                          | 1,556                   |
| Contractual services              | 97,563                  |
| Depreciation                      | 39,390                  |
| Other                             | <u>3,182</u>            |
| Total operating expenses          | <u>155,013</u>          |
| Operating income (loss)           | (11,325)                |
| Nonoperating revenues             |                         |
| Interest income                   | <u>11,641</u>           |
| Net income (loss)                 | 316                     |
| Retained earnings, April 1, 2003  | <u>882,802</u>          |
| Retained earnings, March 31, 2004 | <u><u>\$883,118</u></u> |

See Accompanying Notes to Financial Statements.

Pine River Township  
Combined Statement Of Cash Flows  
All Proprietary Funds  
For the Year Ended March 31, 2004

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|  |                           |
|--|---------------------------|
| Cash flows from operating activities   |                           |
| Operating income (loss)  | (\$11,325)                |
| Adjustments to reconcile operating income (loss)<br>to net cash provided by operating activities |                           |
| Depreciation   | 39,390                    |
| (Increase) decrease in:  |                           |
| Accounts receivable  | (2,448)                   |
| Special assessments receivable   | 5,930                     |
| Increase (decrease) in:  |                           |
| Accounts payable   | 7,570                     |
| Due to other funds   | <u>(3,790)</u>            |
| Net cash provided by operating activities  | <u>35,327</u>             |
| Cash flows from investing activities   |                           |
| Decrease in investments  | 30,000                    |
| Interest income  | <u>11,641</u>             |
| Net cash provided by investing activities  | <u>41,641</u>             |
| Net increase in cash and cash equivalents  | 76,968                    |
| Cash and cash equivalents, April 1, 2003   | <u>998,739</u>            |
| Cash and cash equivalents, March 31, 2004  | <u><u>\$1,075,707</u></u> |

See Accompanying Notes to Financial Statements.

Pine River Township  
Notes To Financial Statements  
March 31, 2004

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

**Reporting Entity**

The Township is governed by an elected five-member council. As required by generally accepted accounting principles, these financial statements present the Township and its component units. In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity."* In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

**Joint Ventures**

Mid-Michigan Community Fire Control Board – This joint venture was established April 1, 1982 for the purpose of providing fire protection to its members of local governments: City of St. Louis and the Townships of Bethany, Pine River and Jasper, located in Gratiot and Midland counties. The City and Townships each appoint one member to the joint venture's governing board. This board then determines and approves the annual budget.

The Township makes annual contributions to the Fire Board based on a formula using the average of the last 4 years of fire runs to determine the percentage cost applicable to each participating unit.

For the period July 1, 2003 through June 30, 2004, the Township's contribution to the Board was \$39,699.

The Township is unaware of any circumstances that would cause it an additional benefit or burden in the near future. Complete financial statements for the year ended June 30, 2004 can be obtained by writing to: Mid-Michigan Community Fire Board, 108 W. Saginaw, St. Louis, Michigan 48880.

Pine River Township  
Notes To Financial Statements  
March 31, 2004

Rural Urban Fire Control Board – The Township is a member of the Rural Urban Fire Control Board which is a joint venture between the City of Alma and the Townships of Arcada, Pine River, Seville and Sumner. The Board provides fire protection services to the Rural Urban Fire District. The membership of the Board is composed of seven members, of which the Township is represented by the Supervisor. The Board is responsible for preparing an annual budget (which is approved by the City and the Townships) and to carry out all activities of the Board.

The Board has established a funding formula based on assessed valuation, population, and runs. The fire fighting equipment is owned jointly by the member municipalities. The City of Alma provides day-to-day management oversight of this joint venture.

For the period July 1, 2003 through June 30, 2004, the Township's contribution to the Board was \$51,049.

The Township is unaware of any circumstances that would cause it an additional benefit or burden in the near future. Complete financial statements for the year ended June 30, 2004 can be obtained by writing to: City of Alma, 525 Superior Street, PO Box 278, Alma, Michigan, 48801.

### **Basis of Presentation**

The accounts of the Township are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the government funds not recorded directly in those funds.

The Township has the following fund types and account groups:

#### Governmental Funds

*General Fund* – This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State aid, and charges for services to provide for the administration and operation of general local township departments. This fund includes the general operating expenditures of the Township.

Pine River Township  
Notes To Financial Statements  
March 31, 2004

*Special revenue fund* – This fund is used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes. The Township has one special revenue fund for fire services.

Proprietary Funds

*Enterprise Funds* – These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the Township is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

*Trust and Agency Funds* – These funds account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and / or other funds. These funds include agency funds.

Account Groups

*General Fixed Assets* – This account group presents the fixed assets of the Township utilized in its operations, other than those fixed assets recorded in proprietary and trust funds.

*General Long-Term Debt* – This account group presents the balance of general obligation long-term debt, which is not recorded in proprietary and trust funds. The Township does not have any general long term debt.

**Measurement Focus / Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The governmental fund types (General and Special Revenue) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. The agency funds also use the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Township considers all revenues available if they are collected within 60 days after year-end. Current expenditures are generally recorded when the fund liability is incurred, if measurable.

Pine River Township  
Notes To Financial Statements  
March 31, 2004

Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due, and accrued vacation and sick time, which is recorded when payable from current available financial resources.

The proprietary fund types (Enterprise) are accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting. The Township applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### **Budgets and Budgetary Accounting**

Budgets are adopted by the Township for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

### **Property Taxes**

Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property located in the Township as of the preceding December 31<sup>st</sup>. These taxes are due on February 14<sup>th</sup> with the final collection date of February 28<sup>th</sup> before they are added to the county delinquent tax rolls.

For Township operations, the 2003 Taxable Valuation of the Township totaled \$57,183,865, on which .9094 mills were levied. For fire services, the 2003 Taxable Valuation of the Township totaled \$50,368,021, on which 2.0 mills were levied.

The total 2003 levy for the Township was \$152,739 of which \$52,003 was for operating purposes and \$100,736 was for fire services.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Pine River Township  
Notes To Financial Statements  
March 31, 2004

**Inventories**

Inventories, which are immaterial in amount, are not recognized as an asset in these financial statements. Inventories are recorded as expenditures at the time of purchase in the governmental fund type.

**Deposits**

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables**

Receivables have been recognized for all significant amounts due the Township in accordance with the accounting principles used for the particular fund. Valuation reserves have not been provided since their collection is not considered doubtful and any uncollected amounts would be immaterial.

**Fixed Assets**

Fixed assets used in governmental fund types are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., road, bridges, sidewalks and other assets that are immovable and of value only to the Township) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed assets account group.

Proprietary funds fixed assets are recorded in the respective fund and depreciated using the straight-line method. Estimated useful lives are as follows:

|               |          |
|---------------|----------|
| Sewer Systems | 40 Years |
| Equipment     | 5 Years  |

**Deferred Revenue**

Deferred revenue represents amounts that do not meet the available criteria, such as special assessments receivable.



Pine River Township  
Notes To Financial Statements  
March 31, 2004

***Long-term Obligations***

The Township reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. As of the balance sheet date, the Township does not have any long term debt.

***Fund Equity***

Contributed capital is recorded in proprietary funds for capital grants. Reserves of fund equity represent portions of fund equity not appropriated for expenditure or legally segregated for a specific future use. Designated fund balance represent tentative plans for future use of financial resources.

***Memorandum Only-Total Columns***

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the function level. During the year ended March 31, 2004, the Township incurred expenditures in excess of the amounts appropriated as shown on page 3 of this report.

Pine River Township  
Notes To Financial Statements  
March 31, 2004

**NOTE 3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorized the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township's deposits are in accordance with statutory authority.

At March 31, 2004, the carrying amount of the Township's cash and cash equivalents was \$2,169,117 as follows:

|                        |             |
|------------------------|-------------|
| Cash Deposits          | \$2,159,117 |
| Certificate of Deposit | 10,000      |
| Total                  | \$2,169,117 |

At year end, the carrying amount of the Township's cash deposits and certificate of deposits was \$2,169,117 and the bank balance was \$2,169,876. Of the bank balance, \$210,000 was covered by federal depository insurance and \$1,959,876 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Pine River Township  
Notes To Financial Statements  
March 31, 2004

**Fixed Assets**

A summary of changes in general fixed assets follows:

|           | 4-1-03    | Additions | Disposals | 3-31-04   |
|-----------|-----------|-----------|-----------|-----------|
| Land      | \$14,000  |           |           | \$14,000  |
| Buildings | 289,575   |           |           | 289,575   |
| Equipment | 25,172    | \$1,396   |           | 26,568    |
|           |           |           |           |           |
| Totals    | \$328,747 | \$1,396   | \$-       | \$330,143 |

A summary of proprietary fund type fixed assets follows:

|                          | 4-1-03      | Additions | Disposals | 3-31-04     |
|--------------------------|-------------|-----------|-----------|-------------|
| Sewer System             | \$1,575,630 |           |           | \$1,575,630 |
| Equipment                | 3,254       |           |           | 3,254       |
|                          |             |           |           |             |
| Accumulated Depreciation | 926,570     | 39,390    |           | 965,960     |
|                          |             |           |           |             |
| Net Fixed Assets         | \$652,314   | \$39,390  | \$-       | \$612,924   |

**Risk Management**

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Township has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Pine River Township  
Notes To Financial Statements  
March 31, 2004

**Segment Information For Enterprise Funds**

The Township maintains two Enterprise Funds that provides sewer services. Segment information for the year ended March 31, 2004 is as follows:

|  |           |
|--|-----------|
| Operating Revenues                       | \$143,688 |
| Operating Income (Loss)                  | (11,325)  |
| Non-operating Revenue - Interest         | 11,641    |
| Net Income                               | 316       |
| Depreciation Expense                     | 39,390    |
| Property, Plant, And Equipment Additions | -         |
| Net Working Capital                      | 1,083,083 |
| Total Assets                             | 1,735,858 |
| Total Equity                             | 1,716,866 |

**Employees Retirement System – Defined Contribution Pension Plan**

Pine River Township participates in the Manulife Financial Defined Contribution Pension Plan for Michigan Township Employees. The name of the plan is the Pine River Township Group Employee's Pension Plan.

All members of the Township Board and all Township Employees are eligible to participate in the plan. As of March 31, 2004, the pension plan's current membership was 5 employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. The amounts participants receive depend solely on the amounts contributed to the participant's account and the returns earned on those contributions.

Participants are required to contribute 7.5% of annual salary with the Township contributing an additional 7.5% of each employee's annual salary to the plan. Participant and employer contributions are immediately 100% vested.

During the year, the Township's actual contributions to the plan amounted to \$5,134, which includes \$2,567 of employer contributions, and \$2,567 of employee contributions.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

Pine River Township  
Tax Collection Agency Fund  
Statement Of Changes In  
Assets And Liabilities  
Year Ended March 31, 2004

|                    | Balance<br>April 1, 2003 | Additions          | Deletions          | Balance<br>March 31, 2004 |
|--------------------|--------------------------|--------------------|--------------------|---------------------------|
| <u>Assets</u>      |                          |                    |                    |                           |
| Cash               | \$533                    | \$2,073,305        | \$1,810,728        | \$263,110                 |
| Due from County    | -                        | 13,631             | -                  | 13,631                    |
| Total Assets       | <u>\$533</u>             | <u>\$2,086,936</u> | <u>\$1,810,728</u> | <u>\$276,741</u>          |
| <u>Liabilities</u> |                          |                    |                    |                           |
| Due to Townships   | -                        | \$224,617          | \$199,832          | \$24,785                  |
| Due to Schools     | -                        | 696,416            | 681,990            | 14,426                    |
| Due to County      | -                        | 941,212            | 902,444            | 38,768                    |
| Due to State       | -                        | 210,950            | 15,791             | 195,159                   |
| Other Liabilities  | <u>\$533</u>             | <u>13,741</u>      | <u>10,671</u>      | <u>3,603</u>              |
| Total Liabilities  | <u>\$533</u>             | <u>\$2,086,936</u> | <u>\$1,810,728</u> | <u>\$276,741</u>          |

See Accompanying Notes to Financial Statements.

Pine River Township  
Combining Balance Sheet  
All Proprietary Funds  
March 31, 2004

|                                | Alma<br>Sewer<br>Fund | St. Louis<br>Sewer<br>Fund | Total              |
|--------------------------------|-----------------------|----------------------------|--------------------|
| <u>Assets</u>                  |                       |                            |                    |
| Current assets                 |                       |                            |                    |
| Cash                           | \$944,453             | \$131,254                  | \$1,075,707        |
| Accounts receivable            | 20,663                | 5,705                      | 26,368             |
| Total current assets           | 965,116               | 136,959                    | 1,102,075          |
| Non-current assets             |                       |                            |                    |
| Property and equipment         |                       |                            |                    |
| Equipment                      | 1,627                 | 1,627                      | 3,254              |
| Sewer system                   | 598,335               | 977,295                    | 1,575,630          |
| Total property and equipment   | 599,962               | 978,922                    | 1,578,884          |
| Less: accumulated depreciation | (393,460)             | (572,500)                  | (965,960)          |
| Net property and equipment     | 206,502               | 406,422                    | 612,924            |
| Special assessments receivable | 13,643                | 7,216                      | 20,859             |
| Total non-current assets       | 220,145               | 413,638                    | 633,783            |
| Total assets                   | <u>\$1,185,261</u>    | <u>\$550,597</u>           | <u>\$1,735,858</u> |
| <u>Liabilities and Equity</u>  |                       |                            |                    |
| Current liabilities            |                       |                            |                    |
| Accounts payable               | \$5,807               | \$11,409                   | \$17,216           |
| Due to other funds             | 888                   | 888                        | 1,776              |
| Total current liabilities      | 6,695                 | 12,297                     | 18,992             |
| Equity                         |                       |                            |                    |
| Contributed capital - federal  | 358,841               | 423,294                    | 782,135            |
| Contributed capital - state    | 25,490                | 26,123                     | 51,613             |
| Total contributed capital      | 384,331               | 449,417                    | 833,748            |
| Retained earnings - unreserved | 794,235               | 88,883                     | 883,118            |
| Total equity                   | 1,178,566             | 538,300                    | 1,716,866          |
| Total liabilities and equity   | <u>\$1,185,261</u>    | <u>\$550,597</u>           | <u>\$1,735,858</u> |

See Accompanying Notes to Financial Statements.

Pine River Township  
Combining Statement Of Revenues, Expenses  
And Changes In Retained Earnings  
All Proprietary Funds  
March 31, 2004

|                                   | Alma<br>Sewer<br>Fund | St. Louis<br>Sewer<br>Fund | Total            |
|-----------------------------------|-----------------------|----------------------------|------------------|
| Operating revenues                |                       |                            |                  |
| Charges for services              | \$78,531              | \$54,560                   | \$133,091        |
| Other operating revenues          | 5,607                 | 4,990                      | 10,597           |
| Total operating revenue           | 84,138                | 59,550                     | 143,688          |
| Operating expenses                |                       |                            |                  |
| Salaries                          | 6,803                 | 6,519                      | 13,322           |
| Supplies                          | 552                   | 1,004                      | 1,556            |
| Contractual services              | 55,715                | 41,848                     | 97,563           |
| Depreciation                      | 14,958                | 24,432                     | 39,390           |
| Other                             | 2,159                 | 1,023                      | 3,182            |
| Total operating expenses          | 80,187                | 74,826                     | 155,013          |
| Operating income (loss)           | 3,951                 | (15,276)                   | (11,325)         |
| Nonoperating revenues             |                       |                            |                  |
| Interest income                   | 10,732                | 909                        | 11,641           |
| Net income (loss)                 | 14,683                | (14,367)                   | 316              |
| Retained earnings, April 1, 2003  | 779,552               | 103,250                    | 882,802          |
| Retained earnings, March 31, 2004 | <u>\$794,235</u>      | <u>\$88,883</u>            | <u>\$883,118</u> |

See Accompanying Notes to Financial Statements.

Pine River Township  
Combining Statement Of Cash Flows  
All Proprietary Funds  
March 31, 2004

|   | Alma<br>Sewer<br>Fund   | St. Louis<br>Sewer<br>Fund | Total                     |
|---|-------------------------|----------------------------|---------------------------|
| Cash flows from operating activities  |                         |                            |                           |
| Operating income (loss)   | \$3,951                 | (\$15,276)                 | (\$11,325)                |
| Adjustment to reconcile operating income (loss)<br>to net cash provided by operating activities |                         |                            |                           |
| Depreciation  | 14,958                  | 24,432                     | 39,390                    |
| (Increase) decrease in:   |                         |                            |                           |
| Accounts receivable   | (2,725)                 | 277                        | (2,448)                   |
| Special assessments receivable  | 2,983                   | 2,947                      | 5,930                     |
| Increase (decrease) in:   |                         |                            |                           |
| Accounts payable  | 1,926                   | 5,644                      | 7,570                     |
| Due to other funds  | (1,806)                 | (1,984)                    | (3,790)                   |
| Net cash provided by operating activities   | <u>19,287</u>           | <u>16,040</u>              | <u>35,327</u>             |
| Cash flows from investing activities  |                         |                            |                           |
| Decrease in investments   | 30,000                  | -                          | 30,000                    |
| Interest income   | <u>10,732</u>           | <u>909</u>                 | <u>11,641</u>             |
| Net cash provided by investing activities   | <u>40,732</u>           | <u>909</u>                 | <u>41,641</u>             |
| Net increase in cash and cash equivalents   | 60,019                  | 16,949                     | 76,968                    |
| Cash and cash equivalents, April 1, 2003  | <u>884,434</u>          | <u>114,305</u>             | <u>998,739</u>            |
| Cash and cash equivalents, March 31, 2004   | <u><u>\$944,453</u></u> | <u><u>\$131,254</u></u>    | <u><u>\$1,075,707</u></u> |

See Accompanying Notes to Financial Statements.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board  
Pine River Township, Michigan

We have audited the financial statements of Pine River Township as of and for the year ended March 31, 2004, and have issued our report thereon dated August 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Pine River Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Pine River Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Pine River Township, in a separate letter dated August 24, 2004.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Co, P.C.*  
Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 24, 2004



## Management Letter

Members of the Board  
Pine River Township  
St. Louis, Michigan

In planning and performing our audit of the financial statements of Pine River Township for the fiscal year ended March 31, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated August 24, 2004 on the financial statements of Pine River Township.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience.

Sincerely,

*Roslund, Prestage & Co, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 24, 2004

### **Organizational Structure**

The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Township Board remains involved in the financial affairs of the Township to provide oversight and independent review functions.

### **Fund Balance**

The balance in the "Fund Balance" account should change only at the end of each fiscal year. This account will increase by the "profit" or decrease by the "loss" when the year-end closing entry is posted. During our audit we found that fund balance did not agree with the balance at the end of the last audited financial statements (March 31, 2003) for all four funds. This was because the auditor's adjusting entries were not posted to the general ledger as of March 31, 2003.

In the future, we recommend that management prepare a reconciliation of fund balance at the end of each fiscal year to determine that the fund balances for each fund agrees with the amounts shown in the prior audited financial statements.

### **Due between Funds**

During our audit, we found that amounts in the various funds for due between funds were not reconciled. We, therefore, recommend management reconcile amounts owed to other funds and amounts due from other funds on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

### **Cancel Invoices and Supporting Documents**

The Company does not have a policy of canceling invoices and supporting documents at the time the invoices are paid. Thus, the invoices are susceptible to unintentional duplicate payment. A simple control against this danger is to mark invoices with a "Paid" stamp or other indication of payment while they are in the custody of the check preparer or signer. The stamp should provide for notation of check number and date and initials of the persons who checked the invoice detail (for example, comparison of quantity on invoice to that on receiving report and mathematical check) and approved it for payment. Such a procedure would add very little time to the bill-paying process but would serve as a reminder to the bill processor of steps to be performed, an indication to the check signer that those steps were done, and prevention against repayment of the invoice.

### **Perform a Fraud Risk Assessment**

In light of the recent frauds involving large companies in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large organizations. However, fraud occurs in organizations of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances.

Whereas the highly publicized frauds mentioned above involved fraudulent financial reporting, for small organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly in the area of cash receipts and disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Township perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Township's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Township. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Township, its environment, and its processes. The fraud risk assessment process should consider the Township's vulnerability to misappropriation of assets.

When conducting the self-assessment, questions such as the following can be considered:

- What individuals in the Township have the opportunity to misappropriate assets?
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets?
- What assets of the Township are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen?
- How could potential misappropriation of assets be concealed?
- What factors might indicate that the Township has a culture or environment that would enable management or employees to rationalize committing fraud?

### **Hall Rental Account**

During our audit, we found the Township maintains a separate bank account for hall rental income. Periodically, funds from this account are transferred into the general fund. However, this cash account is not reflected on the Township's trial balance. We recommend the Township include this cash account as an asset in the general fund.

### **Fire Fund Revenues**

During our audit, we found the Township is recording fire fund revenues in a receivable account rather than a revenue account. In the future, we recommend these revenues be recognized as current year revenues.

### **GASB No. 34**

On June 10, 1999, the GASB unanimously approved the issuance of GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement will have a significant impact on the way state and local governments report their finances to the public.

GASB No. 34 establishes new requirements for the annual financial reports of state and local governments. The basic financial statements and required supplementary information for general-purpose governments will include Management's discussion and analysis (MD&A). The MD&A is a narrative report prepared in an easy-to-read format by the financial manager. It should introduce the basic financial statements; provide an analytical over-view of the financial activities for the year based on the financial manager's knowledge of the transactions, events, and conditions reflected in the financial report and the fiscal policies that control the government's operations. Use of charts, tables, and graphs is encouraged.

In addition to the MD&A, full accrual accounting will also be required, which includes depreciation and capitalization of fixed assets. A substantial amount of time by management and Independent Auditor's will be required to implement GASB No. 34.

The requirements of this GASB Statement are effective in three phases based on the total annual revenues of the government. For Pine River Township, the effective implementation date must begin on April 1, 2004.

We would be pleased to assist you with implementing GASB No. 34.